

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PA-01 PRS-01 /082 W
-----050422Z 059332 /66

R 042351Z APR 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 3051
INFO AMCONSUL MONTREAL
ALL OTHER CONSULATES IN CANADA (BY POUCH)

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E.O. 11652:N/A
TAGS: EFIN, EINV, ETRD, ENRG, CA
SUBJECT: REACTION TO MACDONALD BUDGET

REF: OTTAWA 2243

BEGIN UNCLASSIFIED

1. SUMMARY. REACTION TO FINMIN MACDONALD'S BUDGET PROPOSALS OF MARCH 31 WAS PREDICTABLY NEGATIVE FROM OPPOSITION MP'S AND ORGANIZED LABOR ON BASIS THEIR ALLEGATION THAT BUDGET DID LITTLE TO COMBAT UNEMPLOYMENT. BUSINESS LEADERS GAVE QUALIFIED SUPPORT AS DID SOME MEDIA COMMENTATORS AND ECONOMISTS. EDITORIAL OPINION RANGED FROM CONDEMNATION TO FAINT PRAISE.
END SUMMARY.

2. REACTION TO MACDONALD'S BUDGET MESSAGE OF MARCH 31 (SEE REFTEL) WAS MIXTURE OF SUBDUED PRAISE BY BUSINESS LEADERS, STRONG CRITICISM BY OPPOSITION MP'S AND ORGANIZED LABOR, AND CONFLICTING COMMENT FROM NEWS
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MEDIA.

3. GLOBE AND MAIL OF APRIL 2 DID ROUNDUP OF TOP EXECUTIVES' REACTION WITH MOST OF BUSINESS LEADERS CHARACTERIZING BUDGET AS NEUTRAL TO SLIGHTLY STIMULATIVE. BANK OF MONTREAL CHAIRMAN F. H. MCNEIL WAS MOST EFFUSIVE IN PRAISE OF BUDGET, CALLING IT "SOUND, CONSERVA-

TIVE AND JUST ABOUT THE BEST POSSIBLE." DOW CHEMICAL PRESIDENT ROBERT NAEGELE SAID HE WAS ENCOURAGED BY FACT GOC "HAS RECOGNIZED THAT THE PRIVATE SECTOR AND THE FREE PLAY OF THE MARKET ARE MAJOR WAYS TO SOLVE... INFLATION AND UNEMPLOYMENT."

4. HUDSON BAY CO. PRESIDENT DONALD MCGIVERIN AND CANADIAN IMPERIAL BANK CHAIRMAN FAULTED BUDGET FOR NOT TAKING MORE STIMULATIVE MEASURES. HOWEVER, MANY BUSINESSMEN SINGLED OUT SPECIFIC TAX RELIEF MEASURES (E.G. INVENTORY DEDUCTIONS AND INVESTMENT TAX CREDITS) AS "STEP IN RIGHT DIRECTION" FOR GOVERNMENT TO RESTORE BUSINESS CONFIDENCE.

5. PC LEADER JOE CLARK AND NDP LEADER ED BROADBENT DIRECTED THEIR CRITICISM OF BUDGET TO ITS LIMITED EFFORTS IN JOB-CREATION. BROADBENT SAID HIS PARTY WOULD BLOCK GOVERNMENT MOTION TO ADJOURN PARLIAMENT FOR EASTER HOLIDAY IN ORDER FOCUS PUBLIC ATTENTION ON UNEMPLOYMENT PROBLEM.

6. CLC PRESIDENT JOE MORRIS ECHOED OPPOSITION MP'S ATTACK ON BUDGET FOR NOT ADDRESSING UNEMPLOYMENT PROBLEMS AND SAID THAT BUDGET HAD IMPERILED GOC EFFORTS OBTAIN LABOR'S AGREEMENT TO VOLUNTARY WAGE RESTRAINT, ACCORDING PRESS REPORTS.

7. EDITORIAL COMMENT RANGED FROM GLOBE AND MAIL, WHICH TERMED MACDONALD'S MESSAGE "A BUSINESS BUDGET," TO OTTAWA CITIZEN, WHICH CALLED BUDGET "TOO LITTLE, TOO LIMITED OFFICIAL USE

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LATE." EVEN GLOBE AND MAIL WHICH SAID "IT TOOK COURAGE" FOR MACDONALD TO PRODUCE THIS TYPE OF BUDGET, CLAIMED THAT MACDONALD'S ATTEMPTS TO PLACE DOLLAR VALUE ON TAX INCENTIVES WAS "LIKE LOOKING FOR FIGURES IN A CRYSTAL BALL."

8. MONTREAL GAZETTE CALLED BUDGET "SLIGHT NUDGE" TO STRONGER GROWTH, AND FINANCIAL TIMES CONTENDED THAT "MACDONALD DID DELIVER SOME POSITIVE WORDS TO CANADIAN BUSINESS," BUT THAT NONE OF MEASURES HE PROPOSED "ADD UP TO FUNDAMENTAL PSYCHOLOGICAL BOOST OF CONFIDENCE WHICH THE ECONOMY NEEDS." ONLY END OF CONTROLS, PAPER CONCLUDED, "WILL BRING THAT RESULT."

9. THREE ECONOMISTS INTERVIEWED BY GLOBE AND MAIL GAVE PASSING MARKS TO MACDONALD. GAIL COOK OF C.D. HOWE INSTITUTE SAID GOC IS PREPARING ECONOMY FOR DAY RECOVERY TAKES PLACE SINCE, AS BUSINESS CYCLE IMPROVES, BUDGET CHANGES PROVIDE FOR BETTER BUSINESS LIQUIDITY.

GRANT RATHER OF UNIVERSITY OF WESTERN ONTARIO CLAIMED THAT GOC IS UNDER PRESSURE FROM VARIOUS FACTORS LIMITING ABILITY TO STIMULATE NOW; E.G., EXCHANGE RATE UNCERTAINTY, EXPECTED PRICE INCREASE IN ENERGY AND FOOD, AND INTER-NATIONAL ECONOMIC UNCERTAINTY. MICHAEL MCCRACKEN OF ENFORMATRICA LTD. SAID BUDGET SHOULD RESTORE BUSINESS CONFIDENCE, BUT GOVERNMENT SHOULD HAVE GIVEN CONSUMER-SIDE MORE STIMULUS.

10. ECONOMIC COLUMNIST GEORGE RADWANSKI WROTE THAT "MACDONALD HAS PRODUCED A BUDGET THAT WILL NOT REALLY PLEASE ANY ELEMENT OF SOCIETY." COLUMNIST GEOFFREY STEVENS MAINTAINED THAT "FOR A GREAT MANY CANADIANS, IT'S A CRUEL BUDGET," AND HE CONCLUDED THAT "MACDONALD HAS MANAGED TO OUT-TORY THE TORIES."

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11. COMMENT: SINCE BEGINNING OF YEAR, IT BECAME INCREASINGLY APPARENT THAT MACDONALD'S BUDGET WOULD TILT TOWARDS BUSINESS SINCE PROFITABILITY AND BUSINESS INVESTMENT WERE BEING MENTIONED BY GOC LEADERS IN MUCH MORE FAVORABLE TERMS. EquALLY APPARENT FROM STATEMENTS BY MACDONALD AND BANK OF CANADA GOVERNOR BOUEY WAS UNDERLYING GOC CONCERN ABOUT REFUELING INFLATION THROUGH STIMULATION OF ECONOMY IN ORDER BRING DOWN UNEMPLOYMENT RATE.

12. THUS, AS EMBASSY HAD REPORTED PREVIOUSLY, SIGNS
POINTED TO MODEST STIMULATION, WHICH IS WHAT MACDONALD
DELIVERED ON MARCH 31. MADCONALD APPARENTLY IS RELYING
HEAVILY ON RESURGENCE OF GROWTH IN U.S. ECONOMY TO
PULL CANADA ALONG IN LATTER PART OF 1977. HE HAS OPTION
OF FURTHER STIMULATION LATER IN YEAR THROUGH SUPPLE-
MENTARY BUDGET ESTIMATES FOR INCREASED FEDERAL SPENDING
IF ECONOMY FAILS TO IMPROVE.

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13. WHILE PREPARING FURTHER ANALYSIS OF BUDGET PROPOSALS
AND THEIR POSSIBLE EFFECT ON ECONOMY, EBMASY HAS
ALREADY CONCLUDED THAT LACK OF STRONG STIMULATIVE
MEASURES AND APPARENT ACCEPTANCE BY GOC OF HIGHER UN-
EMPLOYMENT RATES FOR MOST OF YEAR ALMOST PRECLUDE
LIBERAL GOVERNMENT FROM CALLING ELECTION IN 1977.
POLITICALLY, BUDGET WAS NOT VERY PALATABLE TO LARGE
SEGMENTS OF POPULATION, AND THIS IS NOT WAY TO PREPARE
FOR GENERAL ELECTIONS.

14. RE PARA SIX ABOVE, PRESS APPARENTLY DISTORTED CLC'S
VIEWS ON VOLUNTARY WAGE CONTROL. SEE SEPTEL REPORTING
CONVERSATION WITH MORRIS. ENDERS

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